



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Management Letter

# Cochise County

Year Ended June 30, 2004

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**Debra K. Davenport**  
Auditor General

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**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

August 19, 2005

Board of Supervisors  
Cochise County  
1415 Melody Lane  
Bisbee, Arizona 85603

Members of the Board:

In planning and conducting our single audit of Cochise County for the year ended June 30, 2004, we performed the following as required by *Government Auditing Standards* (GAS) and Office of Management and Budget (OMB) Circular A-133:

- Considered the County's internal controls over financial reporting,
- Tested its internal controls over major federal programs, and
- Tested its compliance with laws and regulations that could have a direct and material effect on its financial statements and major federal programs.

All audit findings that are required to be reported by GAS and OMB Circular A-133 have been included in the County's Single Audit Reporting Package for the year ended June 30, 2004. In addition, our audit disclosed internal control weaknesses and instances of noncompliance with laws and regulations that do not meet the reporting criteria. Management should correct these deficiencies to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws and regulations. Our recommendations are described in the accompanying summary.

In addition, as required by Arizona Revised Statutes §41-1279.21(A)(1), we reviewed the County's financial records to evaluate whether the County used Highway User Revenue Fund monies and any other dedicated state transportation monies solely for authorized transportation purposes for the year ended June 30, 2004. We noted no instances of noncompliance during our review.

This letter is intended solely for the information of the Cochise County Board of Supervisors and is not intended to be and should not be used by anyone other than the specified party. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Dennis L. Mattheisen, CPA  
Financial Audit Director

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# The County should establish policies and procedures over its computer system

The County uses a computerized information system to process its financial transactions and maintain its accounting system. To help ensure the County's computer system is operating effectively and efficiently and system data is secure, it is essential that the County have complete written policies and procedures. Policies and procedures serve as tools that help guide daily operations, aid employees in effectively performing their job responsibilities, and provide the basic framework for establishing employee accountability.

The County has policies and procedures over most of its computer operations. However, the County still needs to establish and follow written policies and procedures for system and data security, program changes, and disaster recovery, including the following:

## *System and data security*

- Building areas that contain computers and system access ports should be locked or monitored to prevent unauthorized use or theft.
- Keys to critical computer rooms should be controlled and assigned to a limited number of authorized personnel.
- Pushbutton lock codes should be issued to a limited number of authorized personnel and changed as necessary, such as upon termination or transfer of employees.
- Employees who have database administrative responsibilities should not be responsible for assigning logical access to system information and should not be allowed to make program changes.

## *Program changes*

- Changes should be authorized, analyzed, designed, tested, documented, and approved prior to being placed in operation.
- Authorization should be obtained from applicable department management prior to program changes.
- Programmers and system operators should review and approve the testing methodology.

#### *Disaster recovery*

- Critical computer applications and exposures should be identified along with a risk assessment of the impact on the County in the case of a major computer hardware or software failure.
- A disaster recovery plan should be established that includes the following:
  - Listing of employees assigned to disaster teams and their telephone numbers.
  - Employee assignments and responsibilities.
  - Arrangements for a designated alternate physical facility.
  - Off-site storage locations for the disaster recovery plan.
  - Procedures for testing the plan on a regular basis and updating it as necessary.
  - Procedures for processing critical transactions, including forms or other documents to use.
  - Arrangements with vendors to support the needed hardware and software requirements.

## The County should properly safeguard and report capital assets

The County has invested a significant amount of money in its capital assets. Therefore, it is essential that the County maintain effective stewardship over these assets. Effective stewardship requires the County to maintain accurate and complete lists of these assets and ensure that they are properly accounted for and accurately reported in its financial statements. However, the County did not always follow its written capital assets policies and procedures. For example, the County's policies require that a physical inventory of capital assets be performed every 2 years; however, the County had not performed a comprehensive inventory in at least 7 years. In addition, the County did not prepare or retain documentation of capital assets purchases, disposal, or transfers. Further the County's policies and procedures did not address the acceptable and unacceptable uses of its computers, vehicles, and tools or other equipment.

The County should ensure its capital assets are adequately safeguarded and accurately reported. To accomplish this, the County should:

- Adhere to its existing capital assets policies, including performing a physical inventory every 2 years; completing required capital assets forms for purchases, disposals, or transfers; and retaining purchase documentation and required forms for 3 years after disposals.
- Update the capital assets policies to incorporate newly adopted accounting standards, including infrastructure capitalization.

- Adopt policies that clearly define acceptable and unauthorized uses of computers, vehicles, and tools or other equipment susceptible to misuse.
- Develop operating procedures over the capital assets computer software to help ensure the accuracy of the capital assets information.
- Distribute its capital assets policies to all county employees.

## The County should ensure that its accounting records provide complete and accurate information for federal reporting

Office of Management and Budget (OMB) Circular A-133 requires the County to identify in its accounting records all federal awards received and expended. OMB Circular A-133 also requires the County to prepare a Schedule of Expenditures of Federal Awards (SEFA) for inclusion in its single audit reporting package. The SEFA is to include for each federal award received by the County the name of each federal program, name of awarding federal agency and pass-through entity, catalog of federal domestic assistance (CFDA) number, and amount of federal award expenditures during the period. However, the County's accounting records did not always include sufficient information to comply with these federal requirements. Specifically, the County overstated federal expenditures on its SEFA because its accounting records did not distinguish the federal portion of the Byrne Formula Grant from the nonfederal portion. Also, the County incorrectly reported numerous federal program names and CFDA numbers on the SEFA. The County corrected the SEFA for all significant errors found by the auditors.

The County must comply with the federal reporting requirements of OMB Circular A-133. To accomplish this, the County should clearly identify in its accounts for each federal program the name of the federal program, name of awarding federal agency and pass-through entity, CFDA number, and amount of federal award expenditures during the period. In addition, for programs that include both federal and other funding sources, the County should separately identify in its accounting records expenditures of program monies by funding source.

# Board of Supervisors

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August 4, 2005

Debbie Davenport  
Auditor General  
State of Arizona  
2910 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport:

In response to the June 30, 2004 management letter findings and recommendations, the County has developed the following corrective actions:

## **Computer System:**

1. Plans are being formulated by facilities (facilities has been walked through requirement) and IT (IT Director did walk through with facilities) to enclose all active areas of the Information Technology Department in a push button lock environment. Each end of both hallways will become access points for the non-IT employees and the public. Electric "buzzer" entry will be permitted by the IT secretary location. A posted Standard Operating Procedure (SOP) will be available at the secretary location that describes identification requirement. A written procedure will be completed and put in a procedure manual for the IT Department.
2. Key control is now tightly monitored. Only the director, deputy director, business manager and secretary have keys that will open all storage areas and the server room. Quality Hill already has the push button locks for entrance at that location. A written procedure will be completed and put in a procedure manual for the IT Department.
3. SOP above specifies that the same business day of termination of an employee a request to facilities to have codes changed on push button locks will be generated. A written procedure will be completed and put in a procedure manual for the IT Department.
4. No one who can create a user on the AS400 can now also assign permissions within the financial software. This is stated in the SOP for user creation on the AS400. A written procedure will be completed and put in a procedure manual for the IT Department.
5. Programming now has a binder with the documentation for the on going Treasurer project. This binder will contain documents for each and every change approved to the existing Tax module and the to be developed Bookkeeping modules. A separate binder will be kept for New World. A written procedure will be completed and put in a procedure manual for the IT Department.

6. No programming changes to ANY software is permitted without a signed release from the requesting/responsible department. All such change documents are to be reviewed and initialed by the Director, IT prior to work beginning. A written procedure will be completed and put in a procedure manual for the IT Department.
7. Not only will programmers and system operators review testing methods, but a signed acceptance of test results will be on file for each change/development. A written procedure will be completed and put in a procedure manual for the IT Department.
8. Critical applications are known to reside on not only the AS400, but on almost every Microsoft server within the WAN. A list of these applications is being developed by department in written form and will include a risk assessment of the impact on the County in the case of a major computer hardware or software failure.
9. Disaster Recovery Plan - IT will codify in a written COOP document.
  - a. A reciprocity agreement is being pursued with the city of Sierra Vista for utilization of their AS400 as the Contingency Of Operations Plan (COOP) site for the financial software operations.
  - b. Redundancy is in place to avoid a single campus destruction resulting in loss of service for the Microsoft server based operations. The documentation of this network is available for review.
    - i. Backup tapes are stored off site from Melody Lane for all Microsoft servers located there.
    - ii. Multiple Domain Controllers are spread from Sierra Vista to Douglas and several points in between to assure survivability of the Wide Area Network (WAN)
    - iii. Movement of critical AS400 equipment to Melody Lane complex to be accomplished in next calendar year.
  - c. All microwave site providing inter-site communications are operated on hot-stand by equipment.
  - d. Tape storage and rotation documentation is being developed
  - e. Listing of disaster team and phone numbers in development.
  - f. Vendor contracts in place for 24 hour replacement of all critical hardware elements.

IT will write a disaster recovery plan that will include all the information in a. through f. above and will include a copy in the procedure manual for the IT Department.

**Capital Assets:**

1. The County will revise its Capital Asset Policy to incorporate newly adopted accounting standards including infrastructure capitalization. We will also define acceptable and unauthorized uses of computers, vehicles, and tools in the revised policy. We will distribute the revised policy to all County employees.
2. The County will develop procedures for recordation of purchases, transfers and disposals of capital assets and for retaining the purchase documentation for three years after disposal. The County will develop operating procedures for the capital assets computer software.
3. The County will adhere to its Capital Asset Policy of performing a physical inventory every 2 years.

**Federal Reporting:**

The County will enforce its Fund Management Policy for establishing new funds. The policy requires the requesting department provide a Grant Document, CFDA Number, Program Title and Pass-thru Agency before the Finance Department will issue a fund number for a Federal Grant. The County is in the process of making changes to its accounting system to be able to identify expenditures for federal programs. The County will make changes to its accounting system to ensure the federal requirements of the OMB Circular A-133 are complied with.

Sincerely,

Lois Klein  
Director of Finance  
Cochise County